Western Cape Government
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Opportunities for Wheat Trade: Turkey, South Africa & Zimbabwe

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1. Introduction

Wheat is an important staple crop, contributing to food security for many South Africans. However, following the deregulation of the wheat market in 1997, South African farmers continue to find themselves at a disadvantage in the international market where many of the leading competitors' prices are supported by government subsidies (De Wet & Liebenberg, 2018). Deregulation contributed to declines in land under wheat production and with domestic demand increasing, coupled with challenging production conditions and a changing climate, dependence on imports is shown to have increased (De Wet & Liebenberg, 2018). There is a significant amount of information on South African wheat production, prices and trade from the South Africa Grains Information Service (sagis.org.za). This trade analysis provides a brief snapshot of wheat trade opportunities between Turkey, South Africa and Zimbabwe. Data is sourced from the International Trade Centre (ITC) TradeMap database.

2. South Africa Import Trends: Turkey

South Africa (SA) is the only significant wheat producing country in the region yet remains a net importer of wheat (Sihlobo, 2020). With unfavourable weather conditions in the Western Cape and parts of the Free State, Limpopo and the Northern Cape, increases in local prices along with the impact of COVID-19, 2019/20 imports increased. However, wheat imports for 2020/21 could decrease by 20% due to favourable weather conditions and increased local wheat production (USDA, 2020). The good wheat harvest expected soon is due to the recent good rains after several below-average rainfall in the Western Cape and the Crop Estimates Committee estimate a total wheat harvest of around 2 million tons (CEC, 2020). This near 10-year high could well drive prices downward and limit opportunities for import, especially under the current weakened South African Rand.

The World Trade Organisation governs international trade information and the Harmonised System (HS-codes) classify goods into product nomenclature. To analyse trade in wheat, the codes for wheat grains (HSHS: 100199) and wheat flour (HS: 100190) is used (ITC, 2020).

In 2019, South Africa imported around 1.8 million tons of wheat from main markets Germany, Russia and Lithuania, as shown in the Table 1, including other top importing markets between 2010 and 2019.

Table 1: South African wheat import quantities by country, 2010 to 2019

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Germany	.	.	3	29844	232123	382621	193492	297235	337720	501455
Russia	.	84399	77054	243187	949738	974382	770047	510327	840371	488700
Lithuania	4067	9000		40699	15000	91156	128071	94997	117779	284595
USA	307300	514108	38878	59717	48329	54291	175167	115367	42461	147386
Czech	.	.	.	.	.	.	.	172339	29000	95839
Canada	117284	84122	15356	44481	82514	188151	65250	11000	131841	92982
Latvia	.	.	.	.	83074	.	.	23100	162908	91148
Ukraine	.	.	198052	413250	184720	248747	48449	142244	46745	81121
Poland	.	.	.	.	16894	98511	117812	91327	30639	47503
Argentina	33719	628254	720152	25763	1596	64630	58610	67046	166657	9645
Other	1174054	504272	578413	431898	82428	106552	58379	201319	77616	1849
Total	**1253804**	**1824155**	**1627908**	**1288839**	**1696416**	**2209041**	**1615277**	**1726351**	**1983737**	**1842223**

Source: ITC (2020)

In the current marketing season (up to 17 July 2020) imports amounts to 1 545 999 tons (SAGIS, 2020). The majority of this wheat originated in Poland (28%), the Russian Federation (19%), Germany (18%) and Lithuania (13%) (SAGL, 2020). Despite export restrictions applied in the Black Sea region (following COVID-19), global stocks remain high. Europe and North America remain consistent suppliers (BFAP, 2020). It is further noted that as of September 2020, South Africa's wheat import tariff was introduced at R832.10 per ton (SAGIS, 2020).

Over the next ten years, winter rainfall wheat area is projected to contract in the Western Cape (to 310 000ha by 2029) and stabilise in the summer rainfall area of the Free State (100 000ha by 2029). Irrigated wheat is expected to expand by around 12 percent (BFAP, 2020). Going forward projections will continue to be influenced by technology gains, weather conditions and fluctuations in exchange rate and net

imports are expected to expand (BFAP, 2020). In terms of domestic consumption, constrained consumer spending power has resulted in reduced domestic wheat consumption (in favour of maize) and may only recover to 2019 levels by 2023 (BFAP, 2020).

When considering the trade opportunities between Turkey and South Africa, ITC data (HS: 100199 and HS: 100190) only holds record of 22 000 tons, 4 000 tons and 13 000 tons of wheat imported out of Turkey in 2006, 2008 and 2014 respectively.

In general, wheat imports have been affected by a devalued South African Rand and the import duty triggered in 2015 (BFAP, 2020) introduced to protect domestic wheat prices (FAO, 2015). Since 2017, an annual quota of 300 000 tons of wheat can be imported out of the European Union (EU), duty free. This quota does not necessarily support domestic producers (BFAP, 2020) but could improve agricultural trade for Turkey should ongoing negotiations for Turkey's ascension to the EU be concluded in its favour.

Further disaggregation of data may be possible with further information which imported wheat products are of interest.

3. Zimbabwe Import Trends: South Africa

South Africa and Zimbabwe are members of the Southern Africa Development Community (SADC) and of the SADC Free Trade Area. Preferential access to certain agricultural goods are made possible under the bilateral agreement of 1964 (Fundira, 2017). SA is one of the most important trading partners for Zimbabwe given challenges associated with drought, pests, diseases and general agricultural depression (Phillips, 2019).

Being SA's largest export market for wheat, in 2019 Zimbabwe was reported to have imported 45 497 thousand tons from SA (approximately 83%) (ITC, 2020; TrendEconomy, 2020). In order to meet food security needs, import duties on wheat flour may be removed (albeit temporarily) which could provide further opportunity for South African wheat exports. It is important to note that Zimbabwe does not accept genetically modified crops (Phillips, 2019).

Figure 1 illustrates trends in consumption and production of wheat in Zimbabwe over time. The wheat market experienced volatility and a depressed agricultural system for a number of decades. To meet flour demands, Zimbabwe needs at least 400 000 tons of wheat a year (The Herald, 2020). With domestic production not at those levels, Zimbabwe will continue to import wheat.

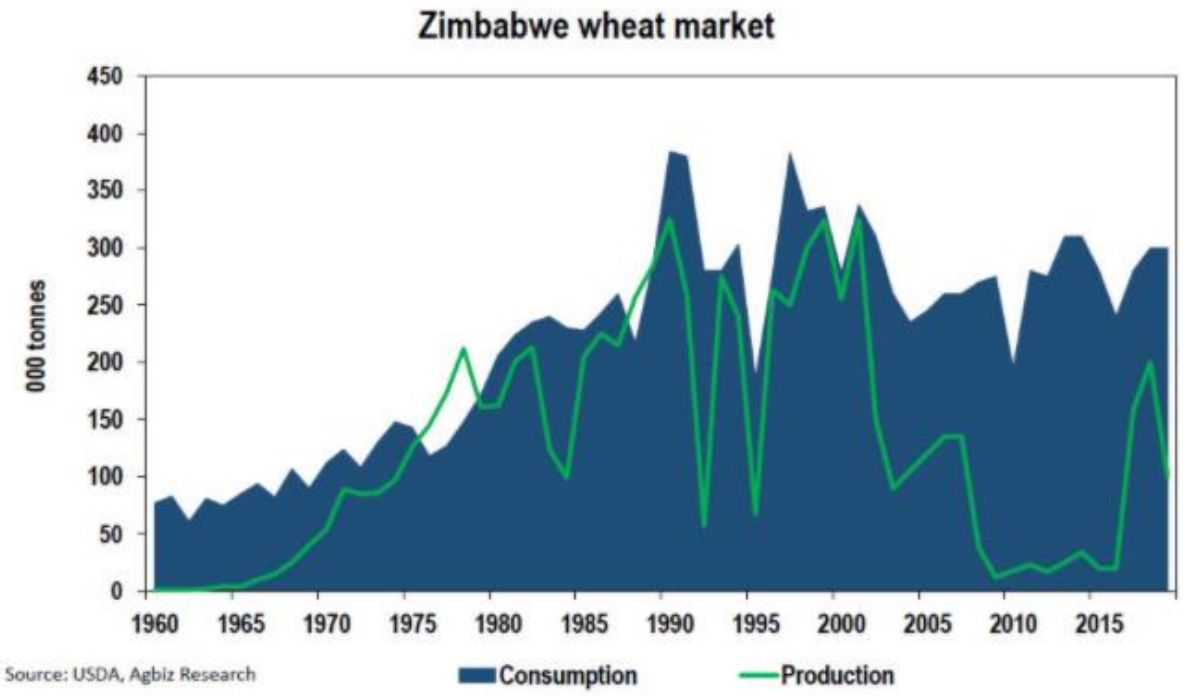

Figure 1: Trends in consumption and production for Zimbabwe's wheat market, 1960 to 2015

Source: Trendsmao (2020 https://www.trendsmap.com/twitter/tweet/1318201662926979076

When further considering Zimbabwe's import trends from South Africa, Figure 2 shows of South African wheat export performance between 2001 and 2019. The sharp decline in 2012/2013 may be as a result of surtaxes introduced in 2012. Under Statutory Instrument (SI) 112 of 2012, agricultural products were affected by up to 25%, which at the time also raised concerns regarding trade commitments under previous agreements (Phillips, 2019). Trade from 2016 to 2018 is most likely as a result of consecutive drought years in SA.

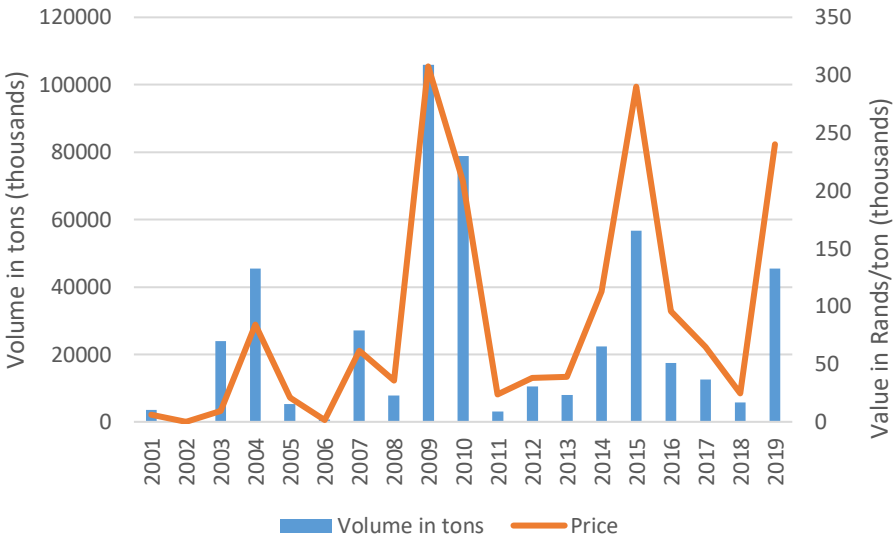

Figure 2: Volume and value of wheat imports from South Africa, 2001 to 2019

Source: ITC (2020)

SA's export volume to Zimbabwe may be affected in the current season as Zimbabwe is expected to harvest nine months' supply of wheat. The 2020 winter crop may potentially result in a saving of US$100 million in imports, provided harvest can be completed ahead of early rains (The Herald, 2020).

No trade data between Turkey and Zimbabwe is available on ITC database.

4. Quality and Local Prices for South African Wheat

Grain quality is important to all role players in the value chain, depending on what the grain is used for. The crop quality surveys for wheat (and other grains) are performed by the South African Grain Laboratory (SAGL) annually. The database provides information on quality differences in commercial crops for the grain producing areas, over several seasons. In 2019/20, whole wheat protein average of 12.9% increased by 0.8% compared to the previous season (SAGL, 2020). A summary of South African wheat crop quality for the 2017/18 and 2019/20 seasons is given Figure 3.

South Africa's variable import tariff is triggered when the world reference price falls below US$279. Prices are currently below this point but remain influenced by exchange rate movements (BFAP, 2020). According to BFAP (2020) projections, wheat prices are expected to increase by up to 16% from 2019 levels. This projected price increase may lead to increased area planted to wheat in the short term and as a result, reduced import volumes (albeit without major impact on price) (BFAP, 2020).

RSA WHEAT CROP QUALITY SUMMARY

RSA Crop Quality 2017/18 and 2019/20 Seasons

Country of origin	RSA Crop Average 2017/2018							RSA Crop Average 2019/20					
Class and Grade bread wheat	B1	B2	B3	B4	UT	COW	Average	Super	B1	B2	B3	COW	Average
No. of samples	*142*	*77*	*22*	*15*	*42*	*6*	*304*	*132*	*56*	*25*	*15*	*105*	*333*
WHEAT **GRADING**													
Protein (12% mb), %	13.1	12.0	11.0	11.9	13.0	13.3	12.6	13.5	12.0	11.1	12.4	13.2	12.9
Moisture, %	10.0	10.1	10.0	9.5	10.3	10.2	10.0	10.3	10.1	10.1	10.2	10.3	10.2
Falling number, sec	379	368	367	380	360	301	371	382	387	355	370	295	353
1000 Kernel mass (13% mb), g	36.9	39.4	40.9	37.0	36.4	34.2	37.7	36.1	38.7	37.8	33.3	33.2	35.6
Hlm (dirty), kg/hl	80.9	81.7	81.6	81.3	78.4	75.8	80.7	80.0	81.3	80.6	77.1	75.9	78.9
Screenings (<1.8 mm sieve), %	1.31	1.21	0.98	1.98	2.61	3.24	1.51	1.31	1.27	1.21	1.56	3.26	1.92
Gravel, stones, turf and glass, %	0.01	0.01	0.02	0.00	0.01	0.07	0.01	0.01	0.01	0.00	0.00	0.01	0.01
Foreign matter, %	0.11	0.13	0.10	0.10	0.29	0.39	0.14	0.10	0.09	0.08	0.06	0.25	0.14
Other grain & unthreshed ears, %	0.35	0.38	0.28	0.42	0.94	0.86	0.45	0.29	0.28	0.32	0.32	0.65	0.41
Heat damaged kernels, %	0.00	0.00	0.00	0.00	0.01	0.05	0.00	0.00	0.00	0.01	0.01	0.08	0.03
Immature kernels, %	0.05	0.04	0.02	0.01	0.11	0.30	0.06	0.07	0.05	0.05	0.01	0.09	0.07
Insect damaged kernels, %	0.59	0.54	0.60	0.55	1.20	3.44	0.72	0.27	0.27	0.18	0.14	0.44	0.31
Sprouted kernels, %	0.02	0.02	0.02	0.00	0.05	1.93	0.06	0.04	0.03	0.09	0.11	3.17	1.03
Total damaged kernels, %	0.66	0.61	0.65	0.56	1.36	5.73	0.84	0.38	0.34	0.34	0.28	3.77	1.44
Combined deviations, %	2.43	2.32	2.01	3.06	5.20	10.22	2.94	2.08	1.98	1.95	2.22	7.93	3.91
Heavily frost damaged kernels, %	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.01	0.00	0.00	0.01	0.02
Field fungi, %	0.10	0.08	0.07	0.11	0.13	1.23	0.12	0.11	0.15	0.14	0.07	0.60	0.27
Storage fungi, %	0.00	0.00	0.00	0.00	0.01	0.08	0.00	0.00	0.00	0.00	0.00	0.01	0.00
Ergot, %	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Poisonous seeds (*Crotalaria spp., etc.*)	0	0	0	0	0	0	0	0	0	0	0	0	0
Poisonous seeds (*Argemone mexicana, etc.*)	0	0	0	0	0	0	0	0	0	0	0	0	0
Live insects	No	No	No	No	No	No	No	No	No	No	No	No	No
Undesirable odour	No	No	No	No	No	No	No	No	No	No	No	No	No

Figure 3: RSA wheat crop quality summary

Source: SAGL (2020)

RSA SAFEX provides historical wheat prices from 1997 to 2020, each year can be downloaded from https://www.sagis.org.za/safex_historic.html.

Figure 4 provides winter wheat prices and tons harvested over the past decade.

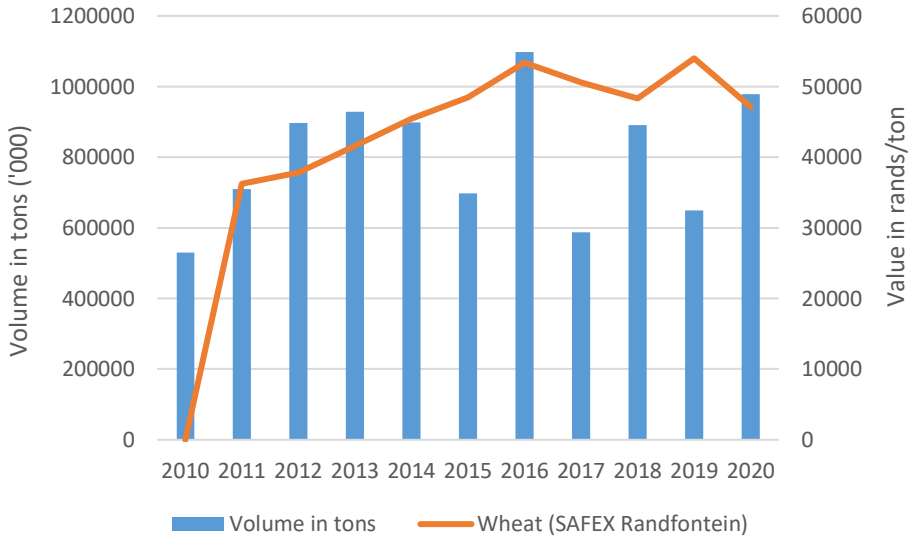

Figure 4: Wheat prices and tons harvested, 2010 to 2020

Source: CEC, 2020; Agbiz, 2020

The BFAP ten-year Outlook provides projections from 2009 to 2029, available for download from https://www.bfap.co.za/wp-content/uploads/2020/08/BFAP-Baseline-2020_Final-for-web-1.pdf.

5. Concluding remarks

South African wheat production continues for face challenges and crisis due to climatic changes, electricity and water crises, current policies and international market conditions. Without improved farming practices to support sustainable production and policies towards promoting the domestic market, import increases are likely to continue.

Further trade research into attractive markets is recommended.

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